

August 19, 1991

Patrick J. Brennan, Jr.
Western Credit Union, Inc
. 750 Georgesville Road
Columbus, Ohio 43228-2898

Re: Risk Assets and Reserve Transfers (Your July 3, 1991, Letter)

Dear Mr. Brennan:

You have asked whether funds deposited in a federally insured financial institutions in excess of \$100,000 are risk assets. Such an investment is not a risk asset under NCUA's Rules and Regulations.

ANALYSIS

The Western Credit Union, Inc. ("CU") has adopted an investment policy permitting the CU to make deposits in large, well capitalized regional banks in excess of \$100,000. The CU hopes to obtain a higher yield on deposits in excess of \$100,000 than can be earned with deposits at the \$100,000 level. The CU believes this type of investment satisfies NCUA's safety and soundness provisions for the CU's excess funds. Before selecting a bank to deposit these funds, the CU evaluates the public financial position of each institution on a bi-weekly basis. None of these investments have a maturity in excess of three years. The CU has accounted for these funds in excess of \$100,000 as risk assets and has made appropriate reserve transfers.

Section 700.1(i)(2) of NCUA's Rules and Regulations (12 C.F.R. 700.1(i)(2)) exempts from the definition of risk asset "deposits and/or shares in federally or state insured banks, savings and loan associations, and credit unions that have a remaining maturity of 3 years or less." CU deposits in federally insured institutions, in excess of \$100,000, are not defined as risk assets for the purpose of establishing reserves required by Section 116 of the FCU Act (12 U.S.C. ~1762). Therefore the CU policy of making reserve transfers on this type of investment is not legally required.

Sincerely,

James J. Engel
Deputy General Counsel

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